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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000964

SIPDIS

TREASURY FOR DAS SAEED
NEA/ARP FOR ASHLEY BAGWELL

E.O. 12958: DECL: 10/3/2007
TAGS: EFIN EINV QA
SUBJECT: QATAR WILLING TO CONSIDER SOVEREIGN WEALTH FUND GUIDELINES

Classified By: CDA Michael A. Ratney, reasons 1.4 (b) and (d).

¶1. (C) Summary: In September 18 meetings at the Ministry of Finance and Central Bank, a U.S. Treasury delegation led by DAS Saeed told the Qatari Finance Minister and Central Bank Governor that the USG remains committed to an open investment climate in the United States and invited Qatar's participation in a U.S.-proposed process, under IMF auspices, to develop a set of best practices for sovereign wealth funds (SWFs). The Qatari officials guardedly welcomed a multi-lateral process to discuss an IMF-coordinated set of best practices for SWFs, but cautioned that it may be difficult to reach consensus due to the diversity of local management practices. They lamented the inherent political nature of cross-border investments and stated that Qatar desires to keep investment decisions outside the political realm. The Qataris also expressed concern over the lack of regulation of hedge funds and new financial products in the United States and elsewhere. End Summary.

¶2. (U) U.S. Treasury officials participating in the September 18 meetings included Deputy Assistant Secretary Ahmed Saeed, International Monetary Policy Office Director Robert Kaproth, the Financial Attach for Abu Dhabi Matthew Epstein, and International Economist Matthew Turner. CDA, P/E Chief, and Econoff also attended. Minister of Finance Yousef Hussain Kamal and Qatar Investment Authority (QIA) Executive Board Member Dr. Hussain Al-Abdulla met with the U.S. delegation at the Finance Ministry, while Central Bank Governor Abdulla Bin Saoud Al Thani and Central Bank Deputy Governor Fahad bin Faisal Al Thani hosted the members at the Central Bank.

¶3. (C) At both meetings, Saeed highlighted the USG's desire to cooperate with Qatar and other states to better

understand the implications of the recent growth in the size and importance of SWFs. He underscored that the United States remains committed to an open investment climate and highlighted recent efforts in this regard, such as a U.S.-led G-8 statement on investment and new legislation for the Committee on Foreign Investment in the United States (CFIUS).

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## Proposal for Sovereign Wealth Fund Best Practices

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¶4. (C) Kaproth outlined for the Qataris key points made by Treasury's Acting Undersecretary for International Affairs Clay Lowery in a recent speech on SWFs, affirming that the United States remains open to investment but that the rapid increase in the number and size of SWFs represents a structural shift underscoring the need to think through the implications of these funds' investment practices. Concerns arise because the funds are not transparent and the extent of leverage and derivatives are not totally clear, explained Kaproth. In addition, there is a danger that SWF investments could spark financial protectionism, which Treasury is keen to prevent.

¶5. (C) Saeed and Kaproth outlined U/S Lowery's proposal that countries work with the IMF on a set of best practices for SWFs, similar to the best practices which already exist for foreign exchange reserve management. The U.S. delegation underscored that these best practices would be voluntary and would not tell SWFs how to invest. They would be useful because they would provide guidance, increase risk management procedures, and help demonstrate to critics that SWFs can be responsible, constructive participants in the international financial system.

¶6. (C) The Qatari officials questioned the need for strict rules or regulations, but suggested that guidelines would be useful ("at least SWFs would know they are there") and that SWFs could develop them. Kamal noted for example that SWF guidelines may be useful in raising awareness internationally about the purposes of fund activities and in fostering cooperation. He noted, however, that every country has its own system of risk management, and this would still be primarily the case even if there were a set of guidelines. Kamal and Al-Abdulla welcomed further discussions on the issue, particularly in the context of the October IMF meetings in Washington.

¶7. (C) Al-Abdulla observed that market mechanisms create their own rules and regulations and that Qatar does not like government interference in its investment activities. Kamal added that investment managers should have primacy to ensure that deals make financial sense, citing the example of Qatar's bid for the NASDAQ-owned portion of the London Stock Exchange as how private transactions should work. Al-Abdulla cautioned that it may be difficult to develop a set of uniform best practices, as the degree of government involvement is inherently relative, and what works best for U.S. investment might not fit the local conditions in the Gulf or elsewhere.

¶8. (C) In response, Saeed underscored the multilateral context of the proposed guidelines and asked for Qatar's participation in a process which he acknowledged has "both political and financial elements." He noted that best practices for SWFs would not prescribe how SWFs should invest their money, or disclosure of positions that might enable the private sector to front-run SWF investment decisions. Kaproth added that the United States "needs to do our part too" and is working
within the OECD on best practices for investment recipient countries.

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## Politics as Part of Doing Cross-Border Investment

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¶9. (C) Kamal underscored the inherent political nature of all private transactions when they involve cross-border investment. He said the "lesson" of Dubai Ports World was that you "cannot separate political from economic issues in an official context." He gave the example of developed countries like France and Spain where the government intervenes in private sector transactions. When Charg raised the CFIUS process for Qatar's investment in the Golden Pass terminal, Kamal rejoined that this was only because the United States needs energy. He remarked that the investment was not really in Qatar's best interest, since the return is projected to be "less than eight percent." Kaproth responded that the case of Dubai Ports World shows why we need tools such as the proposed best practices to avoid other such controversies.

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Concern Over Hedge Fund Regulation
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¶10. (C) All the Qatari interlocutors expressed concern over the lack of regulation of hedge funds in the United States and elsewhere. Al-Abdulla said that hedge funds pose a "systemic risk" to the global financial system. In response, Kaproth explained USG efforts to mitigate any systemic or investor protection risks, such as the Treasury-led President's Working Group on Financial Markets which recently issued guidelines on hedge funds and other pools of private capital. Kaproth also highlighted the imminent announcement of two Working Groups to develop hedge fund best practices for both funds and their investors.

¶11. (C) Central Bank Governor Al Thani noted separately that the Central Bank is participating in a Financial Sector Assessment Program (FSAP) assessment, which should help to improve its statistical capabilities and its ability to assess financial stability and formulate early warning indicators for financial problems, concluding that "we need better statistics to help us manage risk better." The bank has a special unit for macroeconomics and statistics because they realize that without good information they can't make the right decisions. Al Thani highlighted Qatar's cooperation with the IMF and noted that IMF staff members come to Qatar every year to consult with the Central Bank. Qatar, he said, also sends monthly reports on its reserves to the IMF and has "no problem with transparency." Al Thani will attend the October IMF meetings in Washington and an IMF Statistics Department mission will visit Qatar in January.

¶12. (U) The Treasury delegation cleared this message.
RATNEY